

# COTTON MARKET REPORT SEPTEMBER 2023



## International situation

Global cotton production is projected at 24.98 million tonnes for 2023/24. Consumption is projected at 23.31 million tonnes for 2023/24, a modest 0.59% decrease over the 2022/2023 season. As global economic growth has weakened amidst trade barriers, recession fears, and inflation, cotton demand has slowed for the 2022/2023 season and will continue to shrink in 2023/2024.

However, despite this contraction, growth in exports is being reported at a perplexing 14.75%. East Asian economies are expected to continue to lead the world in cotton consumption, and growth — although modest — is expected to be stable in 2023/24. Current estimates on cotton consumption include 7 million tonnes by China, a notable decrease from previous seasons. Consumption in India is expected to remain steady at 5 million tonnes. Pakistan is third in line with consumption figures of 1,9 million tonnes, followed by Turkey, Bangladesh, Vietnam, Brazil, Uzbekistan, the USA, Indonesia, and Mexico.

With supply chains for yarn and fabric being reported as sufficiently supplied, limited opportunities for movement are not expected to increase the flow of cotton lint upstream. Mills are not currently placing large orders so these consumption numbers will certainly change as the season continues.

Consumption in most major consuming countries may see limited growth in 2023/24 even though the trend in global consumption is down slightly. Australia shows a positive change in production figures for the 2023/2024 season, of 104 000 metric tonnes with export figures of 349 000 metric tonnes being exported. Supply and demand estimates for the last month of the 2023/2024 season, show a negative growth trend in production figures for the USA, while the Eastern countries like Indonesia and Vietnam show positive growth figures for importing lint.

Changes in World Cotton supply and demand, from 1 September 2023, show an increase in Ending stocks of around 22,9 million metric tonnes, following a slight increase in world production, from 24,6 to 24,98 million metric tonnes, and a slight decrease in world consumption, from 23,45 to 23,31 million metric tonnes, comparing 2022/23 and the 2023/24 seasons. Against a backdrop of comfortable global supplies and moderate export demand, the Cotlook A-index has increased recently to about 98 cents per pound, a confusing response to what should be downward price pressure.

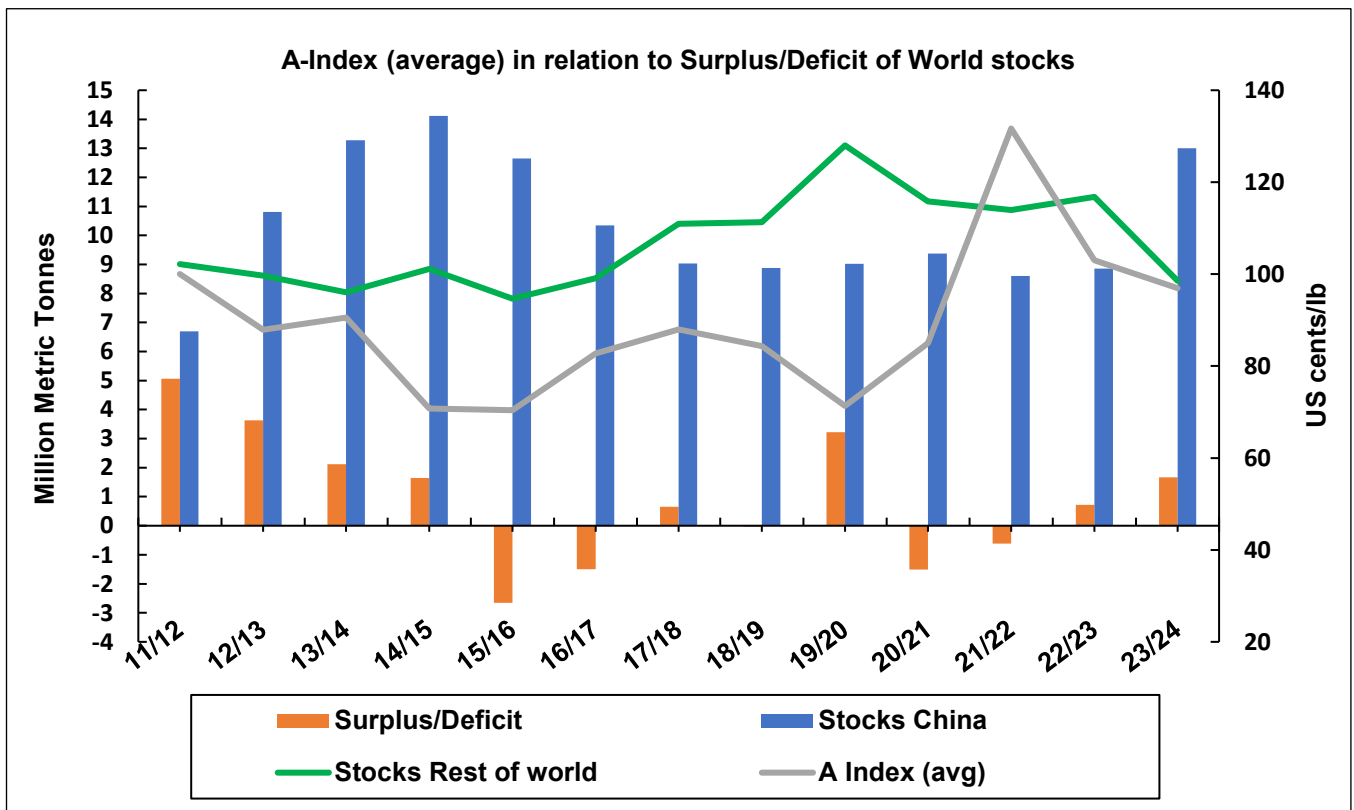
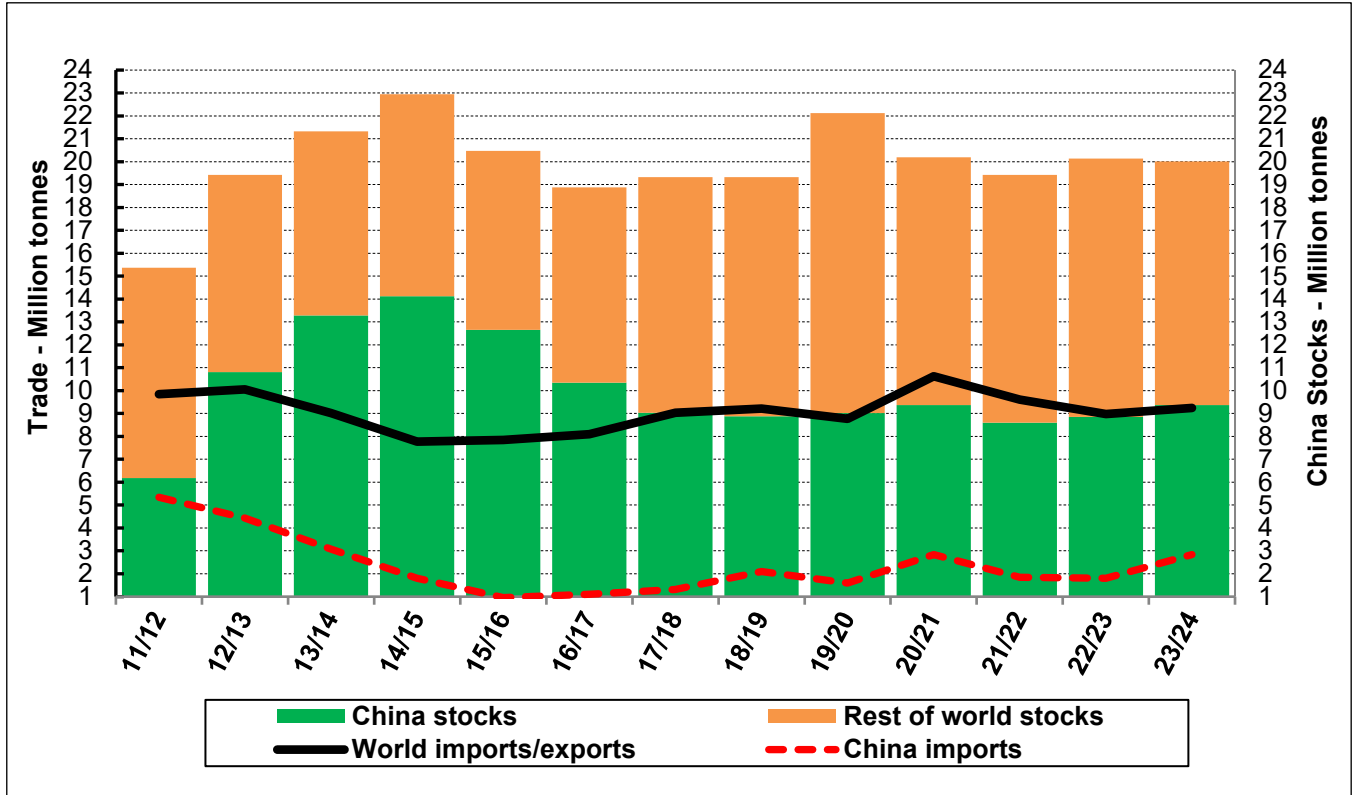
Ending stock levels in the world-less-China are projected to increase by 15% by the end of 2023/24, from current estimates for production



and consumption. Should consumption estimates be revised downward in the coming months, prices that are under some pressure, will see additional constraints. Supply chains are reporting tepid buying, cotton stocks are increasing and despite average futures prices, trade remains stable.

Affected by the projected increase in global cotton production and weak consumption growth, cotton prices are expected to remain low in the new season. The Secretariat's current price forecast of the season-average A index for 2023/24 ranges from 69.69 cents to 105.01 cents, with a midpoint at 85.13 cents per pound (Source: [www.icac.com](http://www.icac.com)).

### World Trade versus China



### The pricing of cotton lint

Since some farmers locally, have started to make use of contract ginning and selling their cotton. This market report gives some information on the pricing of lint.

**The NY Cotton Futures** (formerly the New York Cotton Exchange: is part of the Intercontinental Exchange – ICE) focuses on the trading of futures and option contracts. Future cotton prices are established throughout the trading day and are transmitted worldwide. These prices reflect the latest information about supply and demand. For the novice trader, trading according to the futures market may seem chaotic because the futures prices are not the current price.

The primary economic purpose of the cotton futures market is to provide a baseline for price establishment and a tool for price risk management. Although these prices refer to US cotton, the NY Futures market is used to hedge cotton grown in other countries and this is one of the reasons why international cotton prices are correlated. These prices are for a standardised quality: Strict Low Middling cotton (SLM),  $1\frac{1}{16}$  inch staple, and 3,5 to 4,9 micronaire.

**The Cotlook A Index:** is also considered to be a world cotton price. An ideal world price would be the weighted average price of all cotton that is traded, but the Cotlook A Index is derived as an average of only the five lowest prices trading at that time.

The Cotlook A Index price is usually a little higher than the NY Cotton Futures price, for two reasons: The quality of the cotton represented by the Cotlook A Index is slightly higher than that for the NY Cotton Futures. A Cotlook A Index quote includes shipment to East Asia, where most of the world's cotton is spun into yarn.

There is no formal relationship between the NY Cotton Futures prices and the Cotlook A Index because there are times when US cotton appears not to be among the five cheapest

growths. However, over time the two-price series are highly correlated.

Price forecasts are accurate reflections of fundamental market conditions at the time they are made and serve as a valid indicator of where prices would tend to be, assuming that current information is correct.

The lint price per kilogramme is presented as an average of the weekly NY Cotton Futures prices for example for the next year December, which is given in US c/lb. The average is then converted to a price of US c/kg, which is then converted with the US dollar/Rand exchange rate, to come to a price in Rands/kg lint. The price usually reflects what the SLM A2 (Duns A2) price could be.

Having the price on hand, can motivate farmers if the price is good, and encourage them to plant cotton. The lint price does not predict any specific income for the producer but aids the producer in understanding what kind of prices can be bargained for. The weekly average price based on the December NY Futures price is sent out to farmers every week per WhatsApp by Cotton SA. This is only an international reference price for the week, excluding VAT.

Locally, cotton remains a crop of choice that is best suited for dryland production in comparison with other crops. Farmers must now decide whether to plant cotton in the coming season. Alternatives in the marketing of lint, present the producer with a wider choice, where price plays an important role for the individual farmer. If he/she can deliver sufficient volumes and keep ownership of the lint, the farmer can make decisions about when and to whom to sell the lint and make a decision whether to participate in the pool marketing system.

As explained above, the “local” lint price presented to farmers, is derived from the international price, the December 2023 NY Futures prices for SLM (Strict Low Middling)

$1\frac{1}{16}$ ” and quoted in US cents per pound (see table below).

The final income for the crop will depend on



the quality of the lint and the premiums that can be received. The farmer can also receive discounts if he/she does not deliver on the quality that was agreed upon in the contract with a buyer. Other costs like transport, ginning fees, grading fees, levies, storage, interest, etc.

need to be considered. The lint price for South African farmers has increased to reach an average reference price of R36,49 per kg lint for SLM 1 1/16" for the week ending on 29/09/2023.

(Acknowledgement: Pricing of lint: HW Bruwer & W. Rudman)

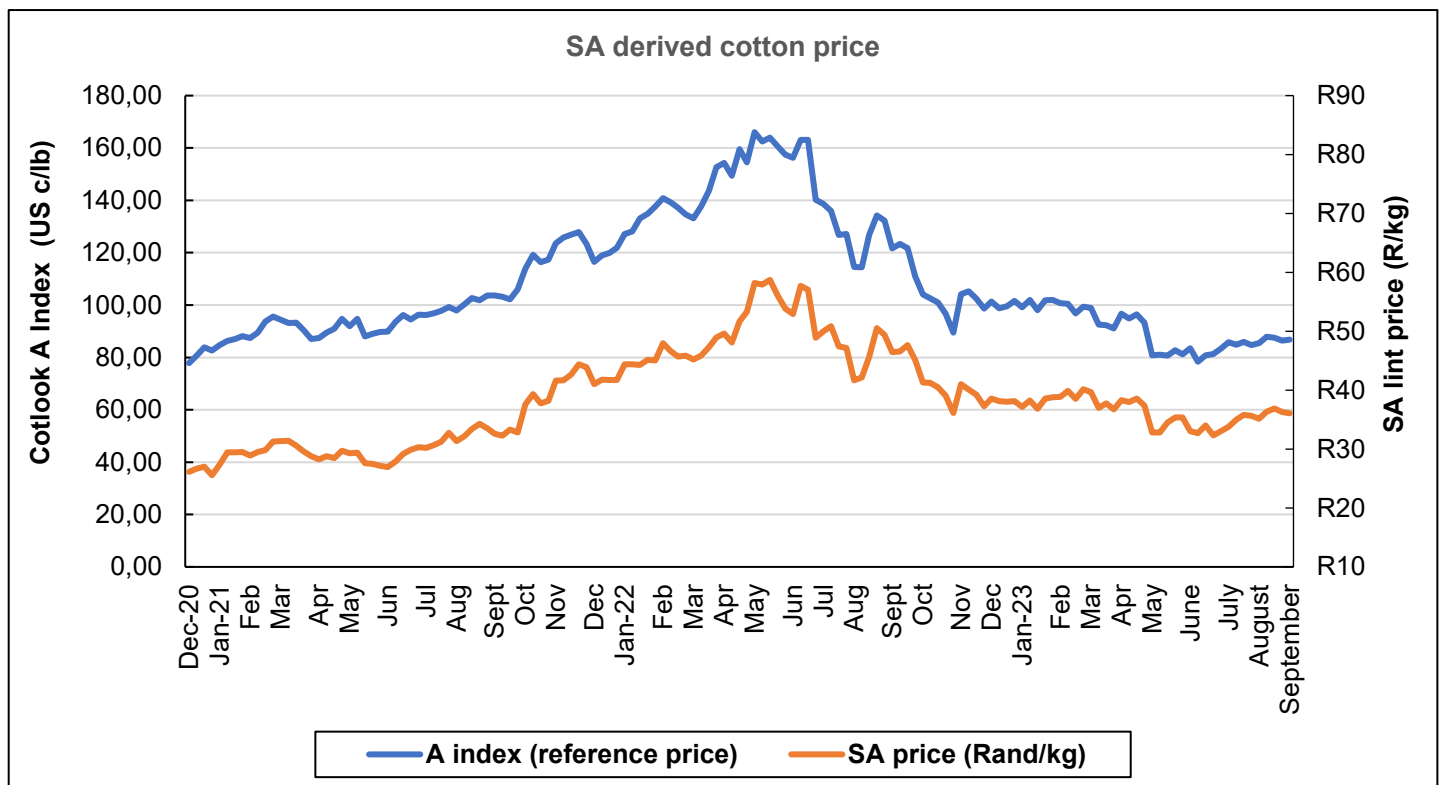
<i>(Quoted in US cents per pound)</i>	02/10/23	Season Low	Season High	1 Year ago	2 Years ago
<b>Cotlook A-Index</b>	97.35	88.7	135.20	104.00	104
<b>NY Futures Nearby Contract <sup>a</sup></b>	86.86	72.00	122.20		
<b>Basis<sup>b</sup></b>	10.49	6.40	N/A <sup>c</sup>	10.78	
<b>2022/23 average to date <sup>d</sup></b>	100.89				
<b>2021/22 average <sup>d</sup></b>	131.68				

<sup>a</sup> Previous day's close.

<sup>b</sup> Current A-Index minus NY ICE Nearby NY futures (previous close)

<sup>c</sup> N/A: Not available

<sup>d</sup> Average price for a given season, August 1 to July 31, or average to date



## Local outlook:

Cotton SA receives monthly returns from the ginneries on which the crop estimates are based. Like the 8<sup>th</sup> estimate, the 9<sup>th</sup> crop estimate indicated that hectares planted under irrigation have increased, but the dryland hectares have decreased from 13 682 to 11 240 ha. The total expected hectarage has decreased, to 18 278 hectares. The estimated average yield obtained under irrigation remains somewhat stable, around 4 439 kg seed cotton/ha, while under dryland conditions, it increased to around 1 447 kg seed cotton/ha. Good yields were achieved by some dryland farmers in the past season, thus larger volumes of seed cotton originating from somewhat fewer dryland hectares were ginned.

The total number of lint bales decreased from the last estimate, but final figures will be available soon (n ≈ 85 703). The fibre quality of the crop to date (1/04/2023 to 9/10/2023) for the 2023 production year, for a total of 56 501 samples

analysed thus far showed that most of the samples have a good leaf code of leaf grade 1 (36,3%), while; 20,8% were leaf grade 2, and 21,7 % of the samples analysed were leaf grade 3, with the minority of the samples falling in the lower leaf grades.

Percentages achieved for USDA grade showed that 26,9 % of the samples falling within GOOD MIDDLING; 18,3 % within STRICT MIDDLING, 25,7 % were MIDDLING, and 23,4% in STRICT LOW MIDDLING, with the smaller portion of the crop, falling in acceptable lower grades.

The average values for the current past season regarding fibre length is 1,14 HVI length (1" <sup>5</sup>/<sub>32</sub>), the micronaire is 4,05; fibre strength is 29.28 grams/tex, and the average uniformity index for the season, up to the first week in October, is 80,87. It is encouraging that seed companies have reported an increase in seed sales for the coming season, and the hope is that the hectares will increase.

RSA CROP	2022/23 8 <sup>th</sup> Estimate	2022/2023 9 <sup>th</sup> Estimate	2021/22 Final Estimate
Ha Irrigation	6 988	7 038	7 195
Ha Dryland	13 682	11 240	10 823
<b>Total Ha</b>	<b>20 670</b>	<b>18 278</b>	<b>18 018</b>
Yield Irrigation (Kg seed cotton/ha)	4 436	4 439	4 306
Yield Dryland (Kg seed cotton/ha)	1 331	1 447	1 103
<b>Total no. lint bales (@ 200kg/bale)</b>	<b>88 425</b>	<b>85 703</b>	<b>76 659</b>

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